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STEEP ROCK IRON MINES LIMITED

ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 1968

ANNUAL MEETING

The Annual General Meeting of the Shareholders of Steep Rock Iron Mines Limited will be held at the Head Office of the Company at Steep Rock Lake, Ontario, on the 7th day of March, 1969, at the hour of 10:00 o'clock in the forenoon, Eastern Standard Time.

BOARD OF DIRECTORS	G. E. ALLEN	*Washington, D.C.*
	HON. W. M. BENIDICKSON, P.C.	*Ottawa, Ontario*
	F. H. BLACK, O.B.E., F.C.A.	*Port Arthur, Ontario*
	DR. JOHN D. DALE	*New York, N.Y.*
	NEIL EDMONSTONE, F.C.I.S.	*Steep Rock Lake, Ontario*
	JAKOB ISBRANDTSEN	*New York, N.Y.*
	FRANK H. LOGAN	*Toronto, Ontario*
	ROBERT L. KAISER	*Detroit, Michigan*
	MARK McKEE	*Oxford, Connecticut*
	JOHN PATERSON	*Fort William, Ontario*
	ALBERT E. RISING, JR.	*New York, N.Y.*
OFFICERS	JOHN PATERSON	*Chairman of the Board*
	NEIL EDMONSTONE	*President*
	GORDON D. WATSON, Q.C.	*Vice-President & General Counsel*
	P. E. CAVANAGH	*Vice-President Research & Sales*
	C. J. FITZGERALD	*Secretary-Treasurer*
	G. B. SULLIVAN	*Controller*
AUDITORS	THORNE, GUNN, HELLIWELL & CHRISTENSON	*Toronto, Ontario*
TRANSFER AGENTS	CROWN TRUST COMPANY	*Toronto, Ontario*
	and	
	CENTRAL NATIONAL BANK OF CLEVELAND	*Cleveland, Ohio*
CONSULTING GEOLOGISTS	A. W. JOLLIFFE, Ph.D.	*Kingston, Ontario*
	M. W. BARTLEY, Ph.D.	*Port Arthur, Ontario*
CONSULTING ENGINEER	WATKIN SAMUEL, P.Eng.	*Toronto, Ontario*
MINE AND EXECUTIVE OFFICES	ATIKOKAN P.O., STEEP ROCK LAKE, ONTARIO	

LETTER FROM THE PRESIDENT

To the Shareholders:

The new pellet plant which came into production in the fall of 1967 is now approaching a consistent full capacity operation. Changes were found necessary to adapt the equipment to achieve the originally planned rate of production. Although earlier anticipations were not completely realized in 1968, shipments totalled 1,300,000 tons which included 1,057,650 tons of pellets.

Due to the lower than anticipated volume of pellet production, operating expenditures were higher than anticipated. This will no doubt adjust itself in 1969 when the plant is expected to be producing at full capacity.

Operating profit for the year before interest, write-offs and other charges was $9,260,000 ($8,324,000 in 1967). Net earnings for the year after reflecting a full year's interest $2,167,700 ($926,300 in 1967) on the new bonds as well as all other charges were $3,832,600 ($4,138,000 in 1967). Cash generated from operations was $6,904,000 ($7,123,000 in 1967). A dividend of 30 cents per share was paid on November 27, 1968 accompanied by a decision to give consideration to putting dividends on a semi-annual basis starting in June 1969.

Capital expenditures for the year were $1,874,100 including $1,047,550 on the pellet plant, and $654,700 on open pit equipment.

Working capital at December 31, 1968 was $10,277,100 ($10,353,500 in 1967).

Discussions in progress with steel companies could lead to a decision to go ahead with the development of your company's Lake St. Joseph property in Northwestern Ontario. As reported previously it is estimated that this property's ore reserve is capable of yielding a minimum of 160,000,000 tons of pellets and can sustain an open pit operation, producing up to 5,000,000 tons of pellets annually. Algoma Steel Corporation already holds a substantial interest in the property under the existing joint venture agreement with Steep Rock.

Review and Outlook

While iron ore prices have not been increased since 1961, (in fact the price was reduced by 90c in 1962) cost increases, particularly in wage rates, have required increasing pressure for operating innovations and cost restraints. Although this seven year period has also witnessed a major technological change in the iron and steel industry involving a requirement of more sophisticated and more costly products, your company has established itself as an important producer of iron ore pellets.

The Canadian steel industry continues to maintain a strong trend, producing an estimated 11,138,000 tons in 1968 compared with 9,694,000 tons in 1967. Importantly for the Canadian iron ore industry, its plans for expansion appear to be founded increasingly on the use of Canadian iron ore. The steel industry in the United States in 1968 produced approximately 130,000,000 tons of steel as compared with 127,213,000 tons in 1967.

Board and Management Changes

After a quarter century of distinguished service to the company, Mr. Cyrus S. Eaton resigned as Chairman of the Board and Mr. William Daley resigned as a director. The two vacancies were filled by Mr. Jakob Isbrandtsen and Dr. A. E. Rising, Jr., of New York, N.Y. Mr. John Paterson, Vice-Chairman, was appointed Chairman of the Board and Mr. Jakob Isbrandtsen was appointed Chairman of the Advisory Committee. Mr. Julian Cross, original discoverer of the Steep Rock property and a director since 1939 and Mr. W. J. Huston, former Executive Vice-President resigned and Mr. Frank H. Logan and Dr. John D. Dale have been elected to fill the vacancies on the Board.

The continued support and co-operation of shareholders and employees is gratefully acknowledged.

By Order of the Board

NEIL EDMONSTONE
President

January 28, 1969

SRIM LIMITED

BALANCE SHEET AS AT DECEMBER 31, 1968

(WITH COMPARATIVE FIGURES AT DECEMBER 31, 1967)

	1968	1967
ASSETS		
Current Assets		
Cash	$ 157,637	$ 532,257
Short term investments at cost which approximates market value	7,127,671	4,690,526
Marketable securities at cost (quoted market value 1968 — $2,655,000; 1967 — $2,228,000)	1,632,738	1,632,738
Accounts receivable (Note 1)	2,799,929	4,820,998
Claims pending and recoverable items	46,140	92,616
Inventories (Note 2)	350,190	1,136,347
Supplies at average cost	916,985	887,583
Prepaid expenses	43,317	135,171
	13,074,607	13,928,236
Fixed Assets		
Buildings, machinery and equipment at less than cost	55,689,600	56,731,810
Less accumulated depreciation	23,830,761	23,819,535
	31,858,839	32,912,275
Mining properties (Notes 3, 9 and 16)	4,386,393	4,386,393
	36,245,232	37,298,668
Other Assets		
Investment in town housing	1,133,837	1,134,421
Investment in subsidiary companies (Note 4)	83,820	146,324
Shares in and advances to other companies at less than cost		
Shares (unlisted)	331,498	331,488
Advances	269,786	265,286
	1,818,941	1,877,519
Deferred Charges		
Deferred operating expenditures	105,250	
Research expenditures (net) on ore processing (Note 5)	506,216	810,124
Deferred development expenditures less amounts written off (Note 12)	74,057,017	74,004,724
	74,668,483	74,814,848
	$125,807,263	$127,919,271

SRIM LIMITED

INCORPORATED UNDER THE LAWS OF ONTARIO

LIABILITIES

	1968	1967
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,678,568	$ 2,497,329
Accrued interest on bonds	160,870	167,496
Principal payment on funded debt due within one year	958,021	909,886
	2,797,459	3,574,711
Funded Debt (Notes 6 and 10)	31,304,478	32,444,856
Royalty Loan (Notes 7 and 10)	3,611,398	4,768,437
Shareholders' Equity (Note 8)		
Preference shares of $100 each		
Authorized — 10,000 shares		
Common shares of $1 each		
Authorized — 10,666,666 shares		
Issued — 8,063,652 shares	8,063,652	8,063,652
Contributed surplus	3,674,675	3,674,675
Retained earnings	76,355,601	75,392,940
	88,093,928	87,131,267
	$125,807,263	$127,919,271

Approved by the Board

N. EDMONSTONE, Director

JOHN PATERSON, Director

SRIM LIMITED

STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1968
(WITH COMPARATIVE FIGURES FOR 1967)

	1968	1967
Income		
Sales and other operating revenue	$ 14,278,472	$ 10,201,639
Royalty and investment income	4,712,324	4,202,581
	18,990,796	14,404,220
Cost and Expenses		
Operating costs, other than below	8,985,646	5,363,317
Administrative and corporate expenses	745,014	716,243
Interest on bonds and royalty loan	2,167,710	926,313
Exchange loss on bonds and royalty loan payments	97,324	87,838
Depreciation (Note 12)	2,009,226	2,119,772
Deferred development expenditures written off (Note 12)	854,119	608,395
Research expenditures written off (Note 5)	252,539	256,579
Outside exploration expenditures and write-offs	46,586	187,616
	15,158,164	10,266,073
Net Earnings for the year (Notes 14, 15 and 16)	$ 3,832,632	$ 4,138,147

STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1968
(WITH COMPARATIVE FIGURES FOR 1967)

	1968	1967
Balance at beginning of year	$ 75,392,940	$ 73,280,026
Add:		
Net earnings for the year	3,832,632	4,138,147
Appropriation for decline in market value of marketable securities no longer required		400,000
	79,225,572	77,818,173
Deduct:		
Dividend — 30c per share	2,419,096	2,419,096
Financing costs		6,137
South concentrator building written off	450,875	
	2,869,971	2,425,233
Balance at end of year	$ 76,355,601	$ 75,392,940




STATEMENT OF DEFERRED DEVELOPMENT EXPENDITURES

YEAR ENDED DECEMBER 31, 1968
(WITH COMPARATIVE FIGURES FOR 1967)

	1968	1967
Balance deferred at beginning of year	$ 74,004,724	$ 72,326,947
Overburden removal	3,045,312	4,828,882
Pumping, etc.		57,589
Structural drilling from underground	342,547	295,071
Depreciation		82,244
Total expenditures for the year	3,387,859	5,263,786
	77,392,583	77,590,733
Deduct amounts written off to operations (Note 12)		
Operating costs	2,481,447	2,977,614
Deferred development written off	854,119	608,395
	3,335,566	3,586,009
Development expenditures prior to mines going into production and $5,999,289 ($5,367,226 in 1967) subsequent overburden removal costs deferred at end of year	$ 74,057,017	$ 74,004,724

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1968
(WITH COMPARATIVE FIGURES FOR 1967)

	1968	1967
Source of Funds		
From operations		
Net earnings as per statement of earnings	$ 3,832,632	$ 4,138,147
Add depreciation and amortization which did not represent cash outlay	3,071,091	2,984,746
	6,903,723	7,122,893
Sale of fixed assets	462,232	275,864
Other items, net	58,578	10,958
Transfer from capital funds		11,080,000
Allowance for decline in market value of marketable securities no longer required		400,000
	7,424,533	18,889,715
Application of Funds		
Expenditures deferred in current year less depreciation in 1967 which did not represent cash outlay	910,293	2,870,037
Additions to fixed assets	1,874,104	11,277,740
Payment on royalty loan	1,157,039	945,557
Dividend	2,419,096	2,419,096
Additional redemption of bonds based on excess production (Note 6)	179,663	
Principal payment of funded debt due within one year transferred to current liabilities	960,715	905,848
	7,500,910	18,418,278
Increase (decrease) in working capital	(76,377)	471,437
Working capital at beginning of year	10,353,525	9,882,088
Working Capital at end of year	$ 10,277,148	$ 10,353,525

NOTES TO FINANCIAL STATEMENTS

1. ACCOUNTS RECEIVABLE

Accounts receivable include amounts for ore sold but not yet shipped amounting in 1968 to $1,689,646; (1967 — $2,533,838).

2. INVENTORIES

Coincident with the commencement of pellet plant production in 1967 which provides a continuous operation, iron ore produced in excess of pellet plant requirements or for subsequent shipment and pellets produced but not yet shipped, have been valued at the lower of cost and net realizable value.

3. MINING PROPERTIES

Mining properties are carried at $4,386,393, comprising a purchase cost of $2,459,456 and a valuation adjustment made in 1943 of $1,926,937.

4. SUBSIDIARY COMPANIES NOT CONSOLIDATED

Investment in subsidiary companies, $83,820, represents the company's investment in Steerola Explorations Limited and Sanjo Iron Mines Limited and comprises shares at cost, $8, and advances $83,812.

An investment in another subsidiary company, Don Park Homesites Limited (a limited dividend housing corporation) is included in the balance sheet heading "Investment in town housing" and is comprised of shares and debentures at cost, $105,953, and advances $533,552.

The accounts of these subsidiaries have not been consolidated because their operations are not of significant importance to the company's operations. The subsidiary companies have no retained earnings and no profit or loss in their 1968 fiscal years. The unpaid interest on Don Park Homesites Limited debentures (all of which are held by the parent company) and on advances from the parent company, has not been taken into the earnings of the company.

5. DEFERRED RESEARCH EXPENDITURES

These represent experimental capital and operating expenditures on ore processing methods for special products after deducting the proceeds of trial shipments of the product and Scientific Research Grants. These deferred expenditures are being written off over five years.

6. FUNDED DEBT

First mortgage sinking fund 6% bonds maturing December 1, 1987 ($29,991,000 U.S.)	$32,265,193
(blended payments of principal and interest are approximately $2,700,000 U.S. annually)	
Less principal payment due within one year included in current liabilities ($893,000 U.S.)	960,715
	$31,304,478

In years when the company has an excess of production as defined by the indenture, additional principal amounts of bonds shall be redeemed.

7. ROYALTY LOAN

The principal and interest at 3¾% are payable only by application of a portion of the royalties received from the lessee of "C" ore zone. The principal outstanding at December 31, 1968 is $3,611,398 ($3,667,259 U.S.).

8. CAPITAL STOCK

The indenture securing the first mortgage sinking fund 6% bonds provides that the company may not effect any reduction of or redeem any of its capital stock nor declare any dividends on any shares of its capital stock should the working capital be less than, or be reduced thereby below, $5,000,000.

9. JOINT VENTURE

The company signed a joint venture agreement in 1965 covering a minimum period of 22 years, under which the joint venture partner acquired title to a specific tonnage of the company's open pit ore reserves. The ore is being mined and pelletized by Steep Rock Iron Mines Limited. Pelletizing operations commenced in September, 1967.

10. BASIS OF CONVERSION OF ACCOUNTS CARRIED IN UNITED STATES DOLLARS

Funded debt (non-current portion) and royalty loan have been converted at the rates of exchange prevailing on the dates the proceeds were received; investments in U.S. securities were converted at the rates of exchange prevailing at the date of purchase. Other accounts, including current portion of the funded debt, have been converted at the rates of exchange prevailing at the year-end.

11. CONTINGENT LIABILITIES

The contingent liability with respect to mortgage guarantees on employees' housing and to outstanding agreements amounts to approximately $466,000 at December 31, 1968.

12. DEPRECIATION AND AMORTIZATION

Depreciation is calculated in respect of some assets on a straight-line basis at annual rates ranging from 5% to 33⅓%, and in respect of some other assets on a unit-of-production basis. Depreciation on the pellet plant and ancilliary equipment is calculated on the sinking fund basis over 20 years, whereby the cost of the pellet plant and the interest on the sinking fund bonds are amortized in approximately equal amounts over the life of a long term contract for the production of pellets. These rates are designed to

provide fully for the cost of the buildings, machinery and equipment over their useful lives.

Deferred overburden removal (stripping) expenditures are charged to operating costs in the statement of earnings on the basis of tons of ore mined. Deferred development expenditures are amortized on the basis of tons of direct ore shipped and pellets produced in relation to the estimated ore reserves of presently developed mines. The bases of amortization are subject to the economic recovery and sale of ore in sufficient quantity to fully amortize the deferred expenditures.

13. OTHER STATUTORY INFORMATION

The direct remuneration of directors and senior officers amounted to $151,600 for 1968 ($185,269 for 1967).

14. PENSION BENEFITS

Past service liabilities assumed by the company under its retirement plans amounted to approximately $1,500,000 at December 31, 1968. The company proposes that these liabilities will be paid and charged against earnings over periods ranging up to twenty-one years.

15. INCOME TAXES

Under the provisions of the income tax acts the company claims depreciation in excess of the amounts charged to earnings, and so no income taxes are payable for 1968 and 1967. Similarly development expenditures have been claimed in prior years in excess of the amounts charged to earnings. The taxes so deferred in this and prior years, calculated at the rates applicable in the respective years, amount to $17,896,000 of which $1,342,000 is applicable to 1968 ($1,705,700 to 1967). These tax savings may be offset in future years when the amounts of development expenditures and depreciation which may be claimed for tax purposes will be less than the amounts then charged to earnings.

16. UNITED STATES SECURITIES AND EXCHANGE COMMISSION FILING

Statements filed with the above Commission are required to contain provisions for the depletion of mining properties and deferred income tax. In accordance with the company's accounting practice no provision for depletion is entered in its books of account and deferred income tax is reported by way of a note to the financial statements (see Note 15).

The amounts so charged in the statements to be filed with the United States Securities and Exchange Commission in respect of 1968 for depletion is $53,368 (total to date $1,566,025) and for deferred income tax is $1,342,000 (total to date $17,896,000).

AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders of
Steep Rock Iron Mines Limited

We have examined the balance sheet of Steep Rock Iron Mines Limited as at December 31, 1968 and the statements of earnings, retained earnings, deferred development expenditures and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the bases of amortization set out in Note 12 and except that the provision for income taxes has not been determined on the tax allocation basis (Note 15), these financial statements present fairly the financial position of the company as at December 31, 1968 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE, GUNN, HELLIWELL
& CHRISTENSON
CHARTERED ACCOUNTANTS

TORONTO, CANADA
JANUARY 17, 1969

SRIM LIMITED

10 YEARS IN REVIEW

	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959
		(Thousands of Dollars)								
Income										
▶ Sales and operating revenue — net	$14,279	10,202	10,283	10,325	10,519	8,520	7,733	9,684	12,004	19,495
Royalty and other income	4,712	4,202	4,053	4,491	3,883	3,798	3,995	2,144	2,002	301
	18,991	14,404	14,336	14,816	14,402	12,318	11,728	11,828	14,006	19,796
Operating expense	9,731	6,080	6,981	8,390	6,711	5,532	6,069	5,870	7,200	7,393
	9,260	8,324	7,355	6,426	7,691	6,786	5,659	5,958	6,806	12,403
Interest, etc.	2,168	926	448	511	662	784	600	124	315	431
▶ Profit before write-offs	7,092	7,398	6,907	5,915	7,029	6,002	5,059	5,834	6,491	11,972
Write-offs	3,116	2,985	2,343	2,030	1,918	1,437	1,205	1,395	1,720	2,457
	3,976	4,413	4,564	3,885	5,111	4,565	3,854	4,439	4,771	9,515
Outside exploration	46	187	219	173	128	197	195	361	535	132
Other expenses	97	88	241	85	184	168	225	48	119	(66)
Provincial taxes									(41)	400
▶ Net earnings	$ 3,833	4,138	4,104	3,627	4,799	4,200	3,434	4,030	4,158	9,049
▶ Earnings per share	$ 0.48	0.51	0.51	0.45	0.60	0.52	0.43	0.50	0.52	1.13
▶ Dividends per share	$ 0.30	0.30	0.30	0.30	0.25	0.20	0.20			
▶ Iron Ore—Tons (000)										
Sales and shipments	1,334	1,165	1,236	1,264	1,241	1,033	963	1,214	1,586	2,746
Royalty ore	2,500	2,326	2,083	2,446	2,001	2,003	2,003	1,009	765	
Total tons	3,834	3,491	3,319	3,710	3,242	3,036	2,966	2,223	2,351	2,746

▶ Highlights

SRIM LIMITED

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STEEP ROCK IRON MINES LIMITED